

INTERNAL REVENUE SERVICE

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October 18, 2000

The Honorable \*\*\*\*\*  
United States Senate  
Washington, D.C. \*\*\*\*\*

Attention: \*\*\*\*\*

Dear Senator \*\*\*\*\*:

Thank you for your letter dated September 6, 2000, with the information about \*\*\*\*\* from your constituent, Mr. \*\*\*\*\* . Mr. \*\*\*\*\* is concerned \*\*\*\*\* may have violated its tax-exempt status by preparing a television commercial critical of Presidential candidate George W. Bush and wonders if the Internal Revenue Service (IRS) has different rules for each political party.

Because of section 6103 of the Internal Revenue Code (the Code), which is designed to protect the privacy of taxpayers, I cannot comment directly on matters involving specific organizations. However, here is some general information that I hope will be helpful in your response to Mr. \*\*\*\*\*.

What may appear to be prohibited political activity by a tax-exempt organization, may be permissible depending on the tax status of the organization funding the activity. Charitable organizations exempt from federal income tax under section 501(c)(3) of the Code are prohibited by statute from intervening in political campaigns on behalf of (or in opposition to) any candidate for public office. Any political campaign intervention activities carried on by a section 501(c)(3) organization could result in the loss of such tax-exempt status, and, equally important, could cause imposition of excise taxes on the organization and its management. See sections 504, 4955, and related provisions.

Many charitable organizations, however, have affiliated organizations exempt under section 501(c)(4) of Code. Section 501(c)(4) organizations are not eligible to receive tax-deductible contributions, but may engage in political activities without jeopardizing their tax-exempt status so long as political activities are not their primary activity. In addition, section 501(c)(4) organizations sometimes establish political action committees or PACs to engage in political activities.

IRS Commissioner Richardson, in 1997, invited the tax writing committees of the Congress to investigate, under the limited disclosure provisions of section 6103(f) of the Code, allegations the IRS engaged in politically targeted examinations of tax-exempt organizations. The Congress recently exercised its oversight function to investigate the IRS's administration of exempt organization matters.

The Joint Committee on Taxation thoroughly investigated these allegations, and released its *Report of Investigation of Allegations Relating to Internal Revenue Service Handling of Tax-exempt Organization Matters* (JCS-3-00) in March 2000. The Committee found no credible evidence the IRS selects tax-exempt organizations for examination based on the views of the organizations or their members, or otherwise applied the tax laws using anything other than objective criteria. This report shows the IRS is committed to fair, impartial, and nonpartisan enforcement of the internal revenue laws in the exempt organizations area.

I hope this information is helpful to Mr. \*\*\*\*\*. If you have any further questions, please call me or \*\*\*\*\* ID# \*\*-\*\*\*\*\*, at (202) \*\*\*-\*\*\*\*.

Sincerely,

Steven T. Miller  
Director, Exempt Organizations